VZCZCXRO6735
RR RUEHCN RUEHGH RUEHVC
DE RUEHBJ #1083/01 1130415
ZNR UUUUU ZZH
R 230415Z APR 09
FM AMEMBASSY BEIJING
TO RUEHC/SECSTATE WASHDC 3607
INFO RUEHOO/CHINA POSTS COLLECTIVE

UNCLAS SECTION 01 OF 02 BEIJING 001083

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: ECON EAGR EPET PGOV CH
SUBJECT: INNER MONGOLIA GROWTH GOAL "ONLY" 13 PERCENT, SLEEPY AG EXPO REFLECTS TOUGH TIMES FOR CHINA'S DAIRYLAND

Sensitive but Unclassified, please protect accordingly. Not for Internet publication, not for distribution outside USG.

Summary

¶1. (SBU) Inner Mongolia Autonomous Region (IMAR) officials claimed March 30 that, while the IMAR's resource-based economy was faring better than that of China's export-oriented regions, the province was still feeling the ill effects of the global financial crisis. Some VIPs present at the opening of the 2009 Inner Mongolia Agricultural Expo expressed doubt that the IMAR would achieve its GDP growth target of 13 percent given dropping demand for coal and electricity. Expo organizers told PolOff the slow economy had made it difficult to attract companies to this year's event and foot traffic was sharply down. Interlocutors claimed the IMAR's dairy industry had almost fully recovered from last fall's tainted milk scandal, with one official claiming that demand was back to 90 percent of pre-scandal levels. Local contacts said the economic slowdown offered an opportunity for the IMAR to boost investment in clean energy, such as wind and converting coal into less-polluting liquid fuels. One official said China's stimulus package had already created more orders for the IMAR's heavy truck manufacturers. End Summary.

Background

¶2. (U) PolOff traveled to Hohhot, Inner Mongolia Autonomous Region (IMAR) March 29-30 as part of Embassy Beijing's Virtual Presence Post (VPP) Hohhot program. In Hohhot, PolOff attended the opening ceremony of the 4th Inner Mongolia International Agricultural Expo.

¶3. (SBU) Expo organizers said the slowing economy had made organizing this year's fair particularly difficult. Expo officials told PolOff they managed to maintain the same number of participating companies as 2008 only by discounting the cost of exhibit space. Nevertheless, they lamented that foreign agricultural companies stayed away this year because overseas firms have cut back sharply on travel budgets. Of the 140 exhibitors, most were based in Northeast China and roughly half were headquartered in the IMAR. A single Japanese veterinary pharmaceutical firm was the only non-mainland Chinese or Hong Kong company present. Exhibitors were mainly firms selling processed food, alcoholic beverages, seeds and livestock feed and equipment. After a surge of visitors immediately after the morning opening ceremony March 30, foot traffic dropped sharply by early afternoon and expo

officials told PolOff crowds were noticeably smaller than last year.

Dairy Industry Recovering from Tainted Milk Scandal
-- ------

¶4. (SBU) IMAR officials were eager to portray the IMAR's dairy industry as mostly recovered from the melamine tainting scandal of fall 2008. At the expo, IMAR's two largest dairy companies, Yili and Mengniu, occupied prime exhibit space right beside one another. The scandal (which resulted in a life sentence for Tian Wenhua, the former chairman of the Sanlu Group, a now defunct dairy firm in Shijiazhuang, Hebei Province) had hit IMAR's dairy farmers hard, according to Lu Manshan, the head organizer of the expo. Lu said for several weeks, IMAR farmers were simply dumping milk down the drain because consumer demand for dairy products had collapsed. The IMAR government, Lu added, had provided income subsidies to dairy farmers to help them weather the scandal. The farmers, Lu said, were innocent victims as it was milk wholesalers who were guilty of watering down milk and then adding melamine to show higher protein levels. Chen Ruiqing, the former deputy chairman of the IMAR People's Congress and current head of the IMAR Socialism Institute (neimenggu shehui zhuyi xueyuan), told PolOff that demand for milk had returned to 90 percent of pre-scandal levels.

IMAR 2009 Growth Target "Only" 13 Percent

¶5. (SBU) Chen and other officials with whom PolOff spoke on the margins of the expo described the IMAR's economy, based largely on resource extraction and agriculture, as fairing much better than that of export-oriented coastal provinces. For the past decade, IMAR's economic growth rates have been among the highest in China. Inner Mongolia enjoyed 17.2 percent GDP growth in 2008. IMAR leaders have set a target of 13 percent for 2009. Yin Zhengye, retired Party Secretary of the IMAR Finance and Economics College (caijing xueyuan), told PolOff he thought achieving the 13 percent target would be "difficult." Yin noted that on March 18 the World Bank reduced its overall 2009 GDP growth prediction for China to just 6.5 percent, meaning China's economy is slowing considerably. While the IMAR has few exports, Yin said, the reduction in energy demand in the rest of China would impact Inner Mongolia's growth rate (note: the IMAR is a major provider of coal and electricity to other provinces). Chen Ruiqing, however, said the 13 percent target was achievable despite the global financial crisis. Chen said the IMAR should use the slowdown as an opportunity to encourage development of clean energies industries such as wind. Chen also viewed the global financial crisis as a chance for IMAR to put more resources into developing organic food, tourism, and other "green industries" that would encourage better environmental protection.

Stimulus Already Helping IMAR

¶6. (SBU) In Hohhot, PolOff met separately with Sun Baoshan, Deputy Director of the IMAR Foreign Affairs Office. Sun said IMAR was already benefiting from the central government's RMB four-trillion stimulus, mainly because the anticipated increase in infrastructure projects had led to a surge in orders

for earth moving equipment and heavy trucks produced by IMAR companies, especially Baotou North-Benz Heavy-Duty Truck Ltd. Sun added that the IMAR government also anticipated that construction would begin on a new high-speed rail link between Hohhot and Beijing, which would also give a boost to the economy. Sun stressed IMAR's desire to develop "clean energy" and noted the IMAR was investing heavily in new technology to convert coal (IMAR has the largest coal reserves of all of China's provinces) directly to diesel and other liquid fuels. Sun noted, however, that this technology would only become cost effective if crude oil prices were to rise sharply from present levels.
PICCUTA